

Message Text

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SUBJECT: QUEBEC FINANCE MINISTER PROPOSES ANTI-INFLATION STRATEGY

1. SUMMARY: IN AN ADDRESS TO QUEBEC ROTARY NOVEMBER 12 QUEBEC FINANCE MINISTER GARNEAU ANALYZED PRINCIPAL ELEMENTS OF INFLATION AND PROPOSED IN EACH CASE POLICY CHANGES MOST LIKELY TO CHANGE SITUATION ACCORDING TO PRESS RELEASE WHICH ACCOMPANIED SPEECH TEXT. HE REVIEWED PROBLEMS OF INDUSTRIAL PRIME MATERIALS, PETROLEUM AND DERIVATIVES, FOOD SUPPLY, SALARIES AND SPECULATIVE MOVEMENTS. HE ADVISED AGAINST TOO RESTRICTIVE MONETARY, FISCAL AND BUDGETARY POLICIES AND AGAINST A CLEARLY EXPANSIONIST POLICY FOR CANADA OVERALL . HE CALLED FOR POLICIES TO INCREASE SUPPLY WHERE IMBALANCE EXISTED, ENDORSED SLIGHTLY RESTRICTIVE POLICY OF BANK OF CANADA DURING 1974 AND CALLED FOR PRUDENCE IN TREATMENT OF BUSINESS PROFITS. HE SUGGESTED HIS FEDERAL COLLEAGUE EXTEND THE PROGRAM OF LOANS TO THE PROVINCES, DEVOTE GREATER SUMS TO IT AND BASE PROVINCIAL SHARES OF IT ON DISTRIBUTION OF UNEMPLOYMENT RATHER THAN POPULATION. END SUMMARY.

2. QUEBEC FINANCE MINISTER RAYMOND GARNEAU TOLD QUEBEC ROTARY CLUB NOVEMBER 12, 1974 APPLICATION OF TOO RESTRICTIVE MONETARY, UNCLASSIFIED

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FISCAL AND BUDGETARY POLICIES TO CONTROL INFLATION AT THIS TIME

WAS CONTRA-INDICATED. ON THE OTHER HAND A CLEARLY EXPANSIONIST POLICY FOR CANADA OVERALL WOULD NOT BE ANY MORE DESIRABLE.

3. FORMER POLICIES WOULD HINDER NEXT PHASE OF ECONOMIC DEVELOPMENT WHILE LATTER WOULD AROUSE INFLATIONARY TENDENCIES WHICH ARE ABSORBED BY THE WEAKENING OF DEMAND.

4. MINISTER SAID ECONOMY WAS PASSING THROUGH A PHASE OF SLOWING DOWN OF GROWTH MARKED BY A PERSISTENT INFLATION AND BY AN AB-NORMALLY HIGH UNEMPLOYMENT RATE. THIS SITUATION REQUIRED PRUDENT CORRECTIVE MEASURES.

5. HE SAID IT WAS NOT A QUESTION OF RESTRAINING ACTUAL DEMAND SINCE THAT WAS SLOWING DOWN ITSELF AND WAS NO LONGER THE PRINCIPAL FACTOR IN INFLATION. QUOTE WE MUST RATHER ENSURE THAT THROUGH OUR MONETARY AND FISCAL POLICIES SUPPLY IS INCREASED IN THE SECTORS IN WHICH THERE IS AN IMBALANCE IN ORDER TO MEET THE DEMAND GENERATED IN THE NEXT PHASE OF ECONOMIC GROWTH UNQUOTE.

6. SPEAKER INDICATED THAT QUOTE NEUTRAL OR SLIGHTLY RESTRICTIVE UNQUOTE POLICY FOLLOWED BY BANK OF CANADA IN 1974 APPEARED TO HIM APPROPRIATE TO THE SITUATION. A MORE RESTRICTIVE POLICY WOULD ACCENTUATE WEAKENING OF GROWTH, AGGRAVATE EMPLOYMENT SITUATION, AFFECT MORE SEVERELY SMALL AND MEDIUM SIZED BUSINESSES, HANDICAP INCREASE OF PRODUCTIVE CAPACITY WHICH SHOULD BE FAVORED AND FINALLY COMPLICATE FINANCING OF PROVINCIAL GOVERNMENTS WHICH SHOULD DEVELOP NATURAL RESOURCES.

7. IN FISCAL AND BUDGETARY MATTERS MINISTER RECOMMENDED APPLICATION OF A POLICY, NEUTRAL OVERALL, BUT SLIGHTLY MORE GENEROUS BOTH FOR REGIONS WHERE PRESENT SLACKENING OF GROWTH RISKS HAVING MORE SERIOUS REPERCUSSIONS AND FOR THE CLASSES OF THE POPULATION WHO WERE MOST AFFECTED BY THE CURRENT SITUATION.

8. MORE SPECIFICALLY, IN ORDER TO PERMIT INCREASED SUPPLY IT WAS NECESSARY TO BE EXTREMELY PRUDENT IN THE TREATMENT OF BUSINESS PROFITS. QUOTE ALTHOUGH VERY HIGH, THESE PROFITS RISKED BEING DIVERTED FROM PRIORITY SECTORS IF ONE ADOPTED A TOO BURDENSOME FISCAL POLICY ESPECIALLY IN THE SECTOR OF RESOURCES UNQUOTE.

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OM MINISTER GARNEAU SUGGEST TO HIS FEDERAL COLLEAGUE THE EXTENSION, FOR ANOTHER YEAR, OF THE PROGRAM OF LOANS TO THE PROVINCES, AN INITIATIVE WHICH WOULD NORMALLY RUN OUT JUNE 30, 1975. QUOTE THIS FORMULA WOULD LEAVE GREAT LATITUDE TO THE PROVINCES UNQUOTE. AS THIS PROGRAM HAD BEEN CONCEIVED TO REDUCE SEASONAL UNEMPLOYMENT AND IN VIEW OF THE PROSPECTS FOR A WORSENING OF THE EMPLOYMENT SITUATION THIS WINTER, THE FEDERAL GOVERNMENT QUOTE

SHOULD EVEN INCREASE QUOTE SUMS DEVOTED TO IT UNQUOTE. MINISTER GARNEAU HOPED THAT SUCH MEASURES WOULD BE INCLUDED IN THE BUDGETARY AND FISCAL DOCUMENT THAT MR. TURNER WAS TO PRESENT TO THE COMMONS MONDAY, QUOTE IN ORDER TO FAVOR A JUDICIOUS CHOICE OF PROJECTS AND A GOOD PROGRAMMING FOR THE WINTER OF 1975-1976 UNQUOTE. THE MINISTER FURTHER NOTED THAT IT WOULD BE APPROPRIATE FOR THE FEDERAL GOVERNMENT TO REVISE THE FORMULA FOR SHARING AMONG THE PROVINCES TO GIVE MORE IMPORTANCE TO THE GEOGRAPHIC DISTRIBUTION OF UNEMPLOYMENT THAN TO POPULATION DISTRIBUTION, QUOTE BECAUSE IT IS REALLY A MATTER OF A PROGRAM TO SUPPORT EMPLOYMENT UNQUOTE.
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